Tennessee Board of Regents
Tennessee Technological University

For the Year Ended
June 30, 2008

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

State of Tennessee

Audit Highlights

Comptroller of the Treasury Division of State Audit

Financial and Compliance Audit
Tennessee Technological University
For the Year Ended June 30, 2008

AUDIT OBJECTIVES

The objectives of the audit were to consider the university's internal control over financial reporting; to determine compliance with certain provisions of laws, regulations, contracts, and grant agreements; to determine the fairness of the presentation of the financial statements; and to recommend appropriate actions to correct any deficiencies.

INTERNAL CONTROL FINDINGS

The President, the Vice President for Business and Fiscal Affairs, and the Foundation's Board of Directors Have Not Established Adequate Controls or Mitigated the Risks Associated With the Bank Reconciliation Process for the University's and the Foundation's Bank Accounts
Neither the university nor the foundation has a formal policy regarding the preparation of bank reconciliations. As a result, bank reconciliations were not always prepared timely (page 9).

The Associate Vice President and Assistant Director of Information Technology Services Did Not Implement Certain Information System Controls for the Operating System and Database Supporting the Banner Information System, Which Increases the Risk That the Information System Will Be Compromised
The Information Technology Services staff has not implemented adequate controls over the information system (page 12).

OPINIONS ON THE FINANCIAL STATEMENTS

The opinions on the financial statements are unqualified.

Audit Report
Tennessee Board of Regents
Tennessee Technological University
For the Year Ended June 30, 2008

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Tennessee Board of Regents
Tennessee Technological University
For the Year Ended June 30, 2008

INTRODUCTION

POST-AUDIT AUTHORITY

This is a report on the financial and compliance audit of the Tennessee Board of Regents, Tennessee Technological University. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which authorizes the Department of Audit to "perform currently a post-audit of all accounts and other financial records of the state government, and of any department, institution, office, or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller."

Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

BACKGROUND

Tennessee Technological University was established as Tennessee Polytechnic Institute on September 14, 1916, by the General Assembly. In 1927, the institution was raised to the status of a four-year college and empowered to grant the bachelor's degree. The administrative structure of the university was expanded in 1949 into five schools: Arts and Sciences, Agriculture and Home Economics, Business Administration, Education, and Engineering. In 1965, the five undergraduate schools were designated as colleges. By an act of the General Assembly, effective July 1, 1965, the name of the institution was officially changed to Tennessee Technological University.

ORGANIZATION

The governance of Tennessee Technological University is vested in the Tennessee Board of Regents. The Governor, the Commissioner of Education, the Commissioner of Agriculture, and the Executive Director of the Tennessee Higher Education Commission serve *ex officio* on this board. The chief administrative officer of the university is the president, who is assisted and advised by members of the faculty and administrative staff.

PRIOR AUDIT FINDINGS

Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The university filed its report with the Department of Audit on August 13, 2008. A follow-up of all prior audit findings was conducted as part of the current audit.

RESOLVED AUDIT FINDINGS

The current audit disclosed that the university has corrected previous audit findings concerning journal vouchers, procurement cards, academic salaries charged to federal programs, and the Direct Loan Program.

OBSERVATIONS AND COMMENTS

MANAGEMENT'S RESPONSIBILITY FOR RISK ASSESSMENT

Auditors and management are required to assess the risk of fraud in the operations of the institution. The risk assessment is based on a critical review of operations considering what frauds could be perpetrated in the absence of adequate controls. The auditors' risk assessment is limited to the period during which the audit is conducted and is limited to the transactions that the auditors are able to test during that period. The risk assessment by management is the primary method by which the institution is protected from fraud, waste, and abuse. Since new programs may be established at any time by management or older programs may be discontinued, that assessment is ongoing as part of the daily operations of the institution.

Risks of fraud, waste, and abuse are mitigated by effective internal controls. It is management's responsibility to design, implement, and monitor effective controls in the institution. Although internal and external auditors may include testing of controls as part of their audit procedures, these procedures are not a substitute for the ongoing monitoring required of management. After all, the auditor testing is limited and is usually targeted to test the effectiveness of particular controls. Even if controls appear to be operating effectively during the time of the auditor testing, they may be rendered ineffective the next day by management override or by other circumventions that, if left up to the auditor to detect, will not be noted until the next audit engagement and then only if the auditor tests the same transactions and controls. Furthermore, since staff may be seeking to avoid auditor criticisms, they may comply with the controls during the period that the auditors are on site and revert to ignoring or disregarding the control after the auditors have left the field.

The risk assessments and the actions of management in designing, implementing, and monitoring the controls should be adequately documented to provide an audit trail both for auditors and for management, in the event that there is a change in management or staff, and to maintain a record of areas that are particularly problematic.

FRAUD CONSIDERATIONS

Statement on Auditing Standards No. 99, *Consideration of Fraud in a Financial Statement Audit*, promulgated by the American Institute of Certified Public Accountants, requires auditors to specifically assess the risk of material misstatement of an audited entity's financial statements due to fraud. The standard also restates the obvious premise that management, not the auditors, is primarily responsible for preventing and detecting fraud in its own entity. Management's responsibility is fulfilled in part when it takes appropriate steps to assess the risk of fraud within the entity and to implement adequate internal controls to address the results of those risk assessments.

During our audit, we discussed these responsibilities with management and how management might approach meeting them. We also increased the breadth and depth of our inquiries of management and others in the entity as we deemed appropriate. We obtained formal

Significant deficiencies, along with recommendations and management's responses, are detailed in the Findings and Recommendations section. Consideration of internal control over financial reporting disclosed no material weaknesses.

Compliance

The results of our tests disclosed no instances of noncompliance that are required to be reported under generally accepted government auditing standards.

Fairness of Financial Statement Presentation

The Division of State Audit has rendered unqualified opinions on the university's financial statements.

STATE OF TENNESSEE
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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

December 11, 2008

The Honorable Phil Bredesen, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
The Honorable Charles W. Manning, Chancellor
Tennessee Board of Regents
1415 Murfreesboro Road, Suite 350
Nashville, Tennessee 37217
and
Dr. Robert R. Bell, President
Tennessee Technological University
Box 5007
Cookeville, Tennessee 38505

Ladies and Gentlemen:

We have audited the financial statements of Tennessee Technological University, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, and its discretely presented component unit as of and for the year ended June 30, 2008, and have issued our report thereon dated December 11, 2008. During the year ended June 30, 2008, the university implemented GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. We conducted our audit in and the standards applicable to financial audits contained in generally accepted government auditing standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the university's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the university's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the university's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

FINDINGS AND RECOMMENDATIONS

1. The President, the Vice President for Business and Fiscal Affairs, and the foundation's board of directors have not established adequate controls or mitigated the risks associated with the bank reconciliation process for the university's and the foundation's bank accounts

Finding

The President, the Vice President for Business and Fiscal Affairs, and the foundation's board of directors have not established adequate controls or mitigated the risks associated with the bank reconciliation process for the university's and the foundation's bank accounts.

Specifically, we noted the following weaknesses:

- The President and the Vice President for Business and Fiscal Affairs at Tennessee operating accounts for both the university and the foundation as well as the three depository accounts. In addition, according to these procedures, the Vice President for Business and Fiscal Affairs approved the reconciliations.

<u>Bank Reconciliations Tested</u>

We tested all operating and payroll account reconciliations for the fiscal year ended June 30, 2008. We examined the 24 bank reconciliations for timeliness of completion and promptness of approval. Since TTU had no policy stating when bank reconciliations were to be completed and approved, for our review, we considered reconciliations timely if they were prepared, reviewed, and approved within 60 days after month-end. We used 60 days after month-end since banks generally allow clients to pursue adjustments due to banking errors within 60 days. In our review, we found the following:

- For 9 of 24 reconciliations tested (37.5%), neither the Assistant to the Vice President for Business and Fiscal Affairs or other appropriate personnel prepared the bank account reconciliations within 60 days after the appropriate month-end for the period August 2007 to February 2008. The Assistant to the Vice President for Business and Fiscal Affairs prepared the bank account reconciliations from 62 to 149 days after the end of the month.

- Since the Assistant to the Vice President for Business and Fiscal Affairs or other appropriate personnel did not prepare all bank account reconciliations timely as noted above, the Vice President for Business and Fiscal Affairs did not review and approve the bank reconciliations timely.

We discussed the university staff's failure to reconcile the bank accounts timely with the Vice President for Business and Fiscal Affairs, who agreed that this issue is a problem. According to the Vice President for Business and Fiscal Affairs and the Assistant to the Vice President for Business and Fiscal Affairs, during the audit period, the Assistant to the Vice President took on several additional responsibilities that were beyond her normal duties, including facilitating the risk assessments performed by the university (one of the largest assessments began in October 2007) and assisting the Vice President for Business and Fiscal Affairs on the committee for the hiring of a new provost (the committee began meeting in compensating control does not obviate the necessity of performing monthly bank reconciliations timely to ensure that the university's financial reporting is free from material misstatement.

The staff's failure to perform bank reconciliations timely could prohibit or limit management's ability to prevent or detect errors in financial reporting. Also, the bank may be unwilling or unable to assist the university in correcting these errors if they are not reported timely.

As of the end of our audit fieldwork, university personnel had not prepared the formal risk assessment for the financial management area, which would include the risks associated with the university's bank reconciliation process. The assessment is scheduled to be submitted to the Tennessee Board of Regents in October 2009.

Recommendation

The President and Vice President for Business and Fiscal Affairs should develop formal, written policies related to the timeliness of bank reconciliations for TTU. The TTU staff who work with the foundation should develop formal, written policies related to the timeliness of bank reconciliations and present the policies to the foundation's board of directors for approval. The Vice President for Business and Fiscal Affairs should not permit control procedures to lapse because of staffing or other problems. After such policies are developed, the Vice President for Business and Fiscal Affairs should ensure that bank reconciliations are always performed timely in accordance with those policies. For the foundation, the President or his designee should ensure that the foundation bank reconciliations are always performed timely as well.

Management should continue to evaluate risks and include them in documented risk assessment activities. Management should ensure that staff who are responsible for the design and implementation of internal controls to adequately mitigate those risks and to prevent and detect exceptions timely are continually evaluating those controls. Management should ensure that staff who are responsible for ongoing monitoring for compliance with all requirements are indeed monitoring and taking prompt action should exceptions occur. All controls and control activities, including monitoring, should be adequately documented.

Management's Comment

Management concurs with the finding. Administrative policies and procedures have been updated stating that bank reconciliations be completed within 60 days of the end of the month being reconciled or within 90 days if extenuating circumstances are present. Since the university functions as fiscal agent for the foundation, this policy applies to all university and foundation bank reconciliations. Every effort will be made to comply with this policy in the future.

While the Assistant to the Vice President did not complete the reconciliations in a timely manner, the outstanding check listings were prepared within thirty days of the close of each month. In preparing these listings, most items requiring special attention became apparent and were dealt with as needed. Recognizing that this does not negate the reconciliation process, it does indicate that the process was not ignored completely.

The job responsibilities of the Assistant to the Vice President of Business and Fiscal Affairs have been reviewed and special projects have been removed to allow sufficient time for regular job duties.

2. The Associate Vice President and Assistant Director of Information Technology Services did not implement certain information system controls for the operating system and database supporting the Banner information system, which increases the risk that the information system will be compromised

Finding

The Tennessee Board of Regents (TBR), in conjunction with the Banner system vendor, SunGard HE, provides standardized computer programs directly to the respective colleges and universities within the TBR system including Tennessee Technological University (TTU). These computer programs are utilized by the recipient institutions to provide academic, administrative, and financial services for their faculty, staff, and student populations. We observed significant conditions that violated best practices for information security controls of the Banner system during our audit at TTU.

The wording of this finding does not identify specific vulnerabilities that could allow someone to exploit the university's systems. Disclosing those vulnerabilities could present a potential security risk by providing readers with information that might be confidential pursuant to Section 10-7-504(i), *Tennessee Code Annotated*. We provided the university with detailed information regarding the specific vulnerabilities we identified as well as our recommendations for improvement.

Recommendation

The Associate Vice President and Assistant Director of Information Technology Services should identify the specific technical procedures resulting in the conditions noted in this finding. These conditions should be remedied by the prompt development and implementation of effective controls and the subsequent monitoring of those controls.

Management should continue to evaluate risks and include the9.5 -1ate ri indeed monitoring and taking prompt action should exceptions occur. All controls and control activities, including monitoring, should be adequately documented.

Management's Comment

Management concurs with the finding. The Associate Vice President of Information Technology Services has developed policies and procedures to address the concerns of this finding. The policies have been reviewed and approved by the Information Technology Committee and forwarded to the Administrative Council for review. Monitoring of the risk assessment in this area has been updated to ensure regular review of the identified concerns.

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We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statements of Tennessee Technological University, an institution of the Tennessee Board of Regents, are intended to present the financial position, the changes in financial position, and the cash flows of only Tennessee Technological University. They do not purport to, and do not present fairly the financial position of the Tennessee Board of Regents, as of June 30, 2008, and the changes in its financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Tennessee Board of Regents, Tennessee Technological University, and its discretely presented component unit as of June 30, 2008, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 16, during the year ended June 30, 2008, the university implemented GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

The management's discussion and analysis on pages 17 through 36 and the schedule of funding progress on page 65 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with generally accepted government auditing standards, we have also issued our report dated December 11, 2008, on our consideration of the university's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and

Tennessee Board of Regents
Tennessee Technological University
Management's Discussion and Analysis
For the Year Ended June 30, 2008

This section of Tennessee Technological University's report presents a discussion and analysis of the financial performance of the university during the fiscal year ended June 30, 2008, with comparative information presented for the fiscal year ended June 30, 2007. This discussion has been prepared by management along with the financial statements and related note disclosures and should be read in conjunction with the independent auditor's report, the audited financial statements, and the accompanying notes. The financial statements, notes, and this discussion are the responsibility of management.

Using This Report

This report consists of three basic financial statements. The Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows provide information on Tennessee Technological University as a whole and present a long-term view of the university's finances.

The Statement of Net Assets

The Statement of Net Assets presents the financial position of the university at the end of the fiscal year and includes all assets and liabilities of the university. The difference between total assets and total liabilities—net assets—is an indicator of the current financial condition of the university. Assets and liabilities are generally measured using current values. One notable exception is capital assets, which are stated at historical cost less an allowance for depreciation.

Net assets are divided into three major categories. The first category, invested in capital assets, net of related debt, provides the university's equity in property, plant, and equipment owned by the university. The next asset category is restricted net assets, which is divided into two categories, nonexpendable and expendable. The corpus of nonexpendable restricted resources is only available for investment purposes. Expendable restricted net assets are available for expenditure by the university but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net assets. Unrestricted net assets are available to the university for any lawful purpose of the university.

University's Net Assets
(in thousands of dollars)

	2008	2007
Assets:		
Current assets	$ 22,065	$ 15,019
Capital assets, net	74,370	64,054
Other assets	24,548	18,495
Total assets	**$ 120,983**	**$ 97,568**
Liabilities:		
Current liabilities	$ 13,633	$ 9,618
Noncurrent liabilities	21,327	20,279
Total liabilities	**$ 34,960**	**$ 29,897**
Net assets:		
Invested in capital assets, net of related debt	$ 59,171	$ 48,198
Restricted – nonexpendable	194	192
Restricted – expendable	7,822	6,191
Unrestricted	18,836	13,090
Total net assets	**$ 86,023**	**$ 67,671**

- The assets of the university increased by 24% from 2007 to 2008. The increase can be attributed to investments in capital assets, which increased 16%. Primary items include fire alarm upgrades and lighting upgrades for the campus and football field. Current assets increased by 47%, which includes an increase in cash of 70%. This increase is due primarily from our increase in accrued liabilities, largely payroll items.

- In keeping with the university's mission, the consumption of assets provided for the continuation of high-quality instruction in the university's undergraduate, masters, specialist, and doctoral degree-granting programs. Assets were also used to continue the mission of research, scholarly activities, and public service, with emphasis on community and economic development.

- The university's increase in liabilities from 2007 to 2008 was 17%. The increase in current liabilities was primarily accrued liabilities, which increased 22.5% due to accrued payroll items. Noncurrent liabilities increased 5% because of the implementation of accrued other post-employment benefits (OPEB).

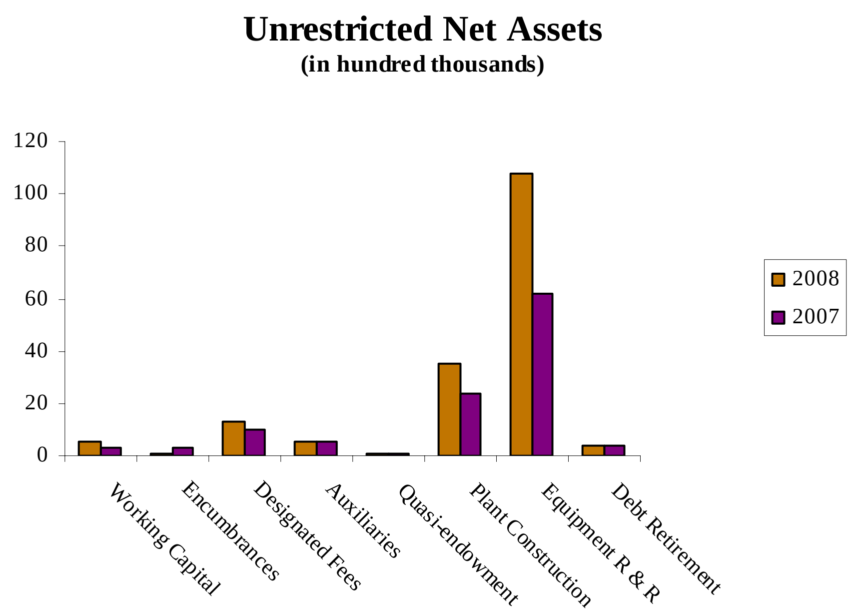
- The increase in net assets of 27% from 2007 to 2008 included additional investments in capital projects. Cost containment efforts taken by the university resulted in a 44%

increase in unrestricted net assets. Profits transferred from auxiliary funds resulted in a 37% increase in renewal and replacement unrestricted net assets. All other fluctuations in net assets were minor.

- Restricted nonexpendable net assets had no significant change from 2007 to 2008.

- Restricted expendable net assets increased 26% from 2007 to 2008, primarily from debt service.

Many of the university's unrestricted net assets have been designated or reserved for specific purposes such as repairs and replacement of equipment, future debt service, quasi-endowments, and capital projects. The following graph shows the allocations:



- Funds designated for renewal and replacement of equipment and repair of housing facilities increased by 74% in FY 2008 compared to FY 2007. Funds designated for plant construction increased by 48% in FY 2008 compared to FY 2007. The primary increase is for elevators and campus lighting.

The Statement of Revenues, Expenses, and Changes in Net Assets

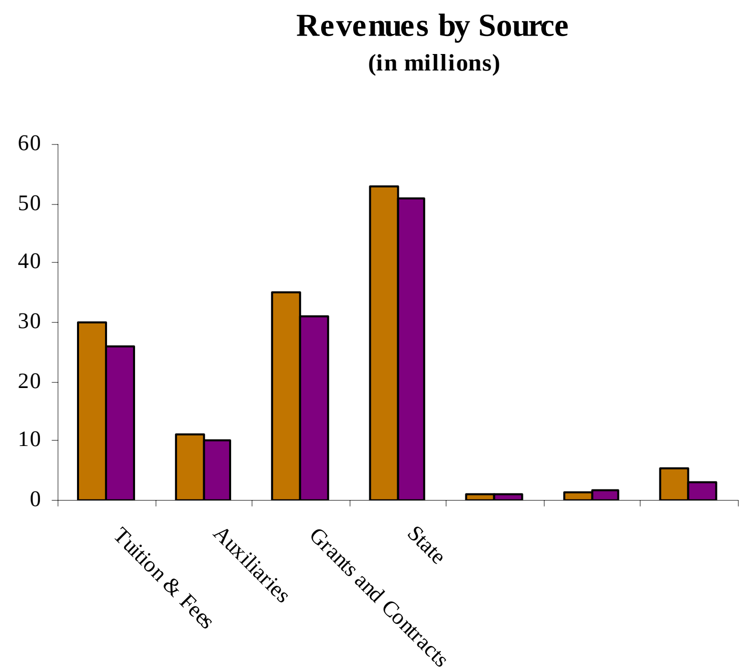
The Statement of Revenues, Expenses, and Changes in Net Assets presents the operating results of the university, as well as the nonoperating revenues and expenses. Annual state appropriations, while budgeted for operations, are considered nonoperating revenues according to accounting principles generally accepted in the United States of America.

University's Changes in Net Assets
(in thousands of dollars)

	2008	2007
Operating revenues:		
Net tuition and fees	$ 29,525	$ 26,223
Grants and contracts	11,295	11,929

Revenues

The following is a graphic illustration of revenues by source (both operating and nonoperating), which were used to fund the university's operating activities for the years ended June 30, 2008, and June 30, 2007.



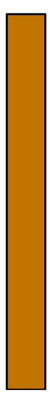
Expenses

Operating expenses can be displayed in two formats, natural classification and program classification. Both formats are displayed below.

Natural Classification

Operating Expenses - Natural Classification
(in thousands of dollars)

		2008		2007
Salaries	$	63,444	$	61,291
Benefits		22,923		20,172
Operating		27,141		23,259
Scholarships		13,537		11,730
Depreciation		5,213		4,935
	$	132,258	$	121,387



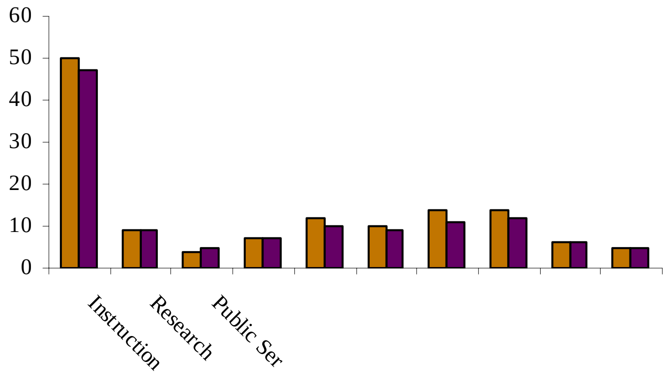
- Expenses increased from 2007 to 2008 by 9%. Salaries increased by 4%, benefits were up 14% due to the increased insurance cost and the implementation of GASB 45 for post employment health care. Operating increased by 17% primarily from increased funding and expenses in restricted funds. Scholarships rose by 15% due to increased activity in restricted-funded scholarships.

Program Classification

Program Classification of Operating Expenses
(in thousands of dollars)

	2008	2007
Instruction	$ 50,341	$ 47,181
Research	9,283	9,351
Public service	3,835	4,815
Academic support	7,448	6,758
Student services	11,901	10,169
Institutional support	9,968	9,387
Maintenance & operations	14,302	11,054
Scholarships & fellowships	13,537	11,731
Auxiliaries	6,430	6,006
Depreciation	5,213	4,935
Total expenses	$	

Operating Expenses - Program Classification
(in millions)



University's Cash Flows
(in thousands of dollars)

	2008	2007
Cash provided (used) by:		
Operating activities	$ (64,852)	$ (66,394)
Noncapital financing activities	77,644	71,153
Capital and related financing activities	(1,781)	(4,753)
Investing activities	2,551	2,760
Net increase in cash	**$ 13,562**	**$ 2,766**
Cash, beginning of year	21,497	18,731
Cash, end of year	**$ 35,059**	**$ 21,497**

- Increases in cash were the result of proceeds from tuition and fees, gifts, grants, sales and services of educational activities, and auxiliary enterprises.

- Decreases were primarily the result of payments to suppliers and vendors, payments for scholarships, and federal student loan disbursements.

- The net increase in cash and cash equivalents amounted to $13,562,326 and $2,765,607 at June 30, 2008, and 2007, respectively.

- For informational purposes, the following liquidity ratios are being provided:

	2008	2007
Current Ratio	1.618	1.562
Quick Ratio	1.581	1.502

- The university's liquidity improved slightly as of June 30, 2008. As a rule of thumb, an adequate current ratio is 2:1; the university's is 1.618:1. Although not an adequate ratio, approximately 69% of current assets are cash and investments that can readily be converted to cash to pay current liabilities.

  The cash flow of the university is highly dependent on two major items: tuition and fees and state appropriations. The chart below compliments the discussion of ratios by detailing major sources and uses.

Tennessee Board of Regents
Tennessee Technological University
Management's Discussion and Analysis (Cont.)
For the Year Ended June 30, 2008

			2008		2007
Current Ratio	Current Assets	$	22,064,880.27	$	15,019,252.57

The university plans to complete approximately $23,278,461 in capital expenditures during the next fiscal year. The following details the projects, amounts, and funding sources:

Project	Amount (in thousands of dollars)		Source of Funding
ADA Modifications	$	120	State Appropriations
Nursing & Health Services Building	$	1,802	Federal Grant, State Appropriations, Private
Fire Alarm Upgrade	$	593	State Appropriations
Central Cooling Deficiency-Phase IV	$	1,038	State Appropriations
STEM Building	$	4,500	Private Donations
Bryan Fine Arts Auditorium Lights	$	20	State Appropriations
Hyder-Burks Acoustics	$	89	State Appropriations
Craft Center Reroof-Gallery/Admin	$	54	State Appropriations
Waterproofing Patio & Masonry	$	190	State Appropriations
Turf Replacement	$	57	Foundation
Housing Fire Safety Upgrade	$	472	Housing Revenue, Local Funds
Eblen Center Basketball Offices	$	1,753	Foundation
Roaden Center Crawlspace	$	346	State Appropriations
Health & PE Electrical	$	640	State Appropriations
Elevator Upgrades	$	1,060	State Appropriations
Ag Pavilion RV Hookups	$	44	State Appropriations
New Residence Halls	$	10,500	TSSBA, Local Funds

In fiscal year 2008, the university acquired an additional $1,643,334 in commercial paper of which $1,050,596 was related to the Performance Contract Order 2 P918 and $592,738 was related to the New Residence Hall P917. Debt for commercial paper of $1,544,000 and bonds of $756,024 was retired. The TSSBA's revenue bond ratings were Aa2 from Moody's, AA from S & P, and AA from Fitch at June 30, 2008.

More detailed information about the university's long-term liabilities is presented in Note 6 to the financial statements.

Economic Factors That Will Affect the Future of the University

The university's 2008-09 budget will remain about the same due to a 6.0% increase in fees along with a decrease in state appropriations.

TENNESSEE TECHNOLOGICAL UNIVERSITY FOUNDATION

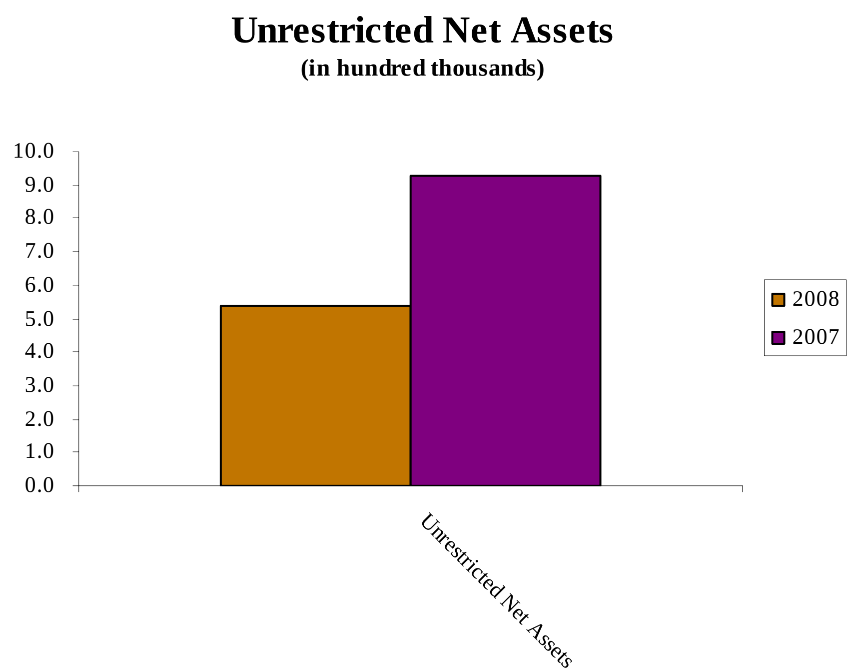
The Statement of Net Assets

The Statement of Net Assets presents the financial position of the foundation at the end of the fiscal year and includes all assets and liabilities of the foundation. The difference between total assets and total liabilities—net assets—

Component Unit's Net Assets

(in thousands of dollars)

The foundation's unrestricted net assets have not been designated or reserved for specific purposes. Funds are available for use as priorities arise during the year.



The Statement of Revenues, Expenses, and Changes in Net Assets

The Statement of Revenues, Expenses, and Changes in Net Assets presents the operating results of the foundation, as well as the nonoperating revenues and expenses.

Component Unit's Changes in Net Assets

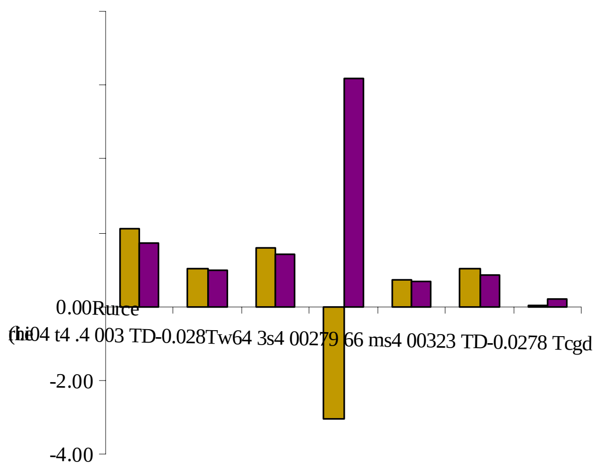
(in thousands of dollars)

	2008	2007
Operating revenues:		

<u>Revenues</u>

The following is a graphic illustration of revenues by source (both operating and nonoperating), which were used to fund the foundation's operating activities for the years ended June 30, 2008, and June 30, 2007.

Revenues by Source
(in millions)



<u>Expenses</u>

The natural classification method for displaying operating expenses is shown below.

Natural Classification ssific

prepared for the next biggest challenge: our centennial campaign. The university will this year embark on a multi-year fundraising effort which will culminate in 2015, Tech's 100th anniversary. While the goal is still being formulated with the assistance of off-campus consultants, it is evident that this campaign will be one of the largest the university has undertaken. Considering the current economic state of the financial markets and their effects on university donors' personal portfolios, this centennial campaign will be a challenge. However, we are confident that this effort will prove successful and bring major program enhancements for our students.

The equity market's instability and the bond market interest rates' decline will hopefully improve during the next fiscal year to provide a better funding source for the TTU Foundation.

Requests for Information

This financial report is designed to provide a general overview of the university's finances for all those with an interest in the university's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed to Dr. Claire Stinson, Vice President for Business and Fiscal Affairs, Tennessee Technological University, P.O. Box 5037, Cookeville, TN 38505.

TENNESSEE BOARD OF REGENTS
TENNESSEE TECHNOLOGICAL UNIVERSITY
STATEMENTS OF NET ASSETS
JUNE 30, 2008

	Tennessee Technological University	Component Unit Tennessee Technological University Foundation
ASSETS		
Current assets:		
Cash and cash equivalents (Notes 2 and 18)	$ 15,168,843.75	$ 553,898.27
Short-term investments (Notes 3 and 18)	25,966.31	510,958.80
Accounts, notes, and grants receivable (net) (Note 4)	6,362,182.59	-
Inventories	343,241.76	-
Prepaid expenses and deferred charges	115,055.92	-
Accrued interest receivable	49,589.94	125,926.43
Total current assets	22,064,880.27	1,190,783.50
Noncurrent assets:		
Cash and cash equivalents (Notes 2 and 18)	19,890,168.72	13,895,389.67
Investments (Notes 3 and 18)	2,150,382.80	34,155,455.58
Accounts, notes, and grants receivable (net) (Note 4)	2,508,143.34	1,500.00
Capital assets (net) (Notes 5 and 18)	74,369,950.11	399,664.28
Total noncurrent assets	98,918,644.97	48,452,009.53
Total assets	120,983,525.24	49,642,793.03
LIABILITIES		
Current liabilities:		
Accounts payable	2,494,048.63	-
Accrued liabilities	6,577,058.03	-
Student deposits	135,234.49	-
Deferred revenue	2,378,825.03	-
Compensated absences (Note 6)	751,861.34	-
Accrued interest payable	92,358.01	-
Long-term liabilities, current portion (Notes 6 and 18)	788,279.46	34,259.25
Deposits held in custody for others	371,398.05	-
Other liabilities	44,020.98	-
Total current liabilities	13,633,084.02	34,259.25
Noncurrent liabilities:		
Net OPEB obligation (Notes 6 and 10)	1,605,718.18	-
Compensated absences (Note 6)	2,594,811.02	-
Long-term liabilities (Notes 6 and 18)	14,410,046.03	705,740.75
Due to grantors (Note 6)	2,716,298.22	-
Total noncurrent liabilities	21,326,873.45	705,740.75
Total liabilities	34,959,957.47	740,000.00
NET ASSETS		
Invested in capital assets, net of related debt	59,171,624.62	399,664.28
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	194,100.43	23,393,807.71
Research	-	411,584.42
Instructional department uses	-	2,921,588.15
Other	-	8,293,142.25
Expendable:		
Scholarships and fellowships (Note 7)	460,142.36	4,253,418.99
Research	375,839.06	115,363.18
Instructional department uses (Note 7)	501,493.71	1,020,956.19
Loans (Note 7)	726,667.35	-
Capital projects	2,985,847.44	3,954,833.01
Debt service	1,533,667.78	-
Other (Note 7)	1,238,100.77	3,601,369.96
Unrestricted (Notes 7 and 8)	18,836,084.25	537,064.89
Total net assets	$ 86,023,567.77	$ 48,902,793.03

The notes to the financial statements are an integral part of this statement.

Exhibit B

TENNESSEE BOARD OF REGENTS
TENNESSEE TECHNOLOGICAL UNIVERSITY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

	Tennessee	
REVENUES		
Operating revenues:		
Student tuition and fees (net of scholarship allowances of $21,853,612.30)	$ 29,525,473.75	$ -
Gifts and contributions	-	2,089,939.53
Endowment income	-	1,596,431.34
Governmental grants and contracts	10,785,351.73	-
Nongovernmental grants and contracts	509,584.89	-
Sales and services of educational departments	5,345,700.00	1,018,807.34
Auxiliary enterprises:		
Residential life (net of scholarship allowances of $46,444.65; all residential life revenues are used as security for revenue bonds; see Note 6)	8,207,468.16	-
Bookstore	340,615.32	-
Food service (net of scholarship allowances of $353,235.48; all food service revenues are used as security for revenue bonds; see Note 6)	624,802.50	-
Wellness facility (all wellness facility revenues are used as security for revenue bonds; see Note 6)	909,806.18	-
Other auxiliaries	784,112.09	-
Interest earned on loans to students	33,103.34	-
Other operating revenues	845,607.69	24,854.94
Total operating revenues	57,911,625.65	4,730,033.15
EXPENSES		
Operating expenses (Note 15):		
Salaries and wages	63,444,177.59	-
Benefits	22,922,888.31	-
Utilities, supplies, and other services	27,140,737.03	2,432,744.85
Scholarships and fellowships	13,537,031.24	1,314,781.50
Depreciation expense	5,213,064.87	-
Payments to or on behalf of Tennessee Technological University (Note 18)	-	3,686,267.78
Total operating expenses	132,257,899.04	7,433,794.13
Operating loss	(74,346,273.39)	(2,703,760.98)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	53,443,400.00	-
Gifts, including $359,250.00 from component unit	574,870.19	-
Grants and contracts	23,726,022.75	-
Investment income (loss) (net of investment expense for the component unit of $213,918.57)	1,532,843.68	(3,031,965.20)
Interest on capital asset-related debt	(644,584.65)	-
Bond issuance costs	5,545.61	-
Other nonoperating revenues (expenses)	(69,160.76)	-
Net nonoperating revenues (expenses)	78,568,936.82	(3,031,965.20)
Income (loss) before other revenues, expenses, gains, or losses	4,222,663.43	(5,735,726.18)
Capital appropriations	9,365,714.41	-
Capital grants and gifts, including $3,327,017.78 from component unit	4,762,414.05	726,019.15
Additions to permanent endowments	1,815.00	1,031,189.84
Total other revenues	14,129,943.46	1,757,208.99
Increase (decrease) in net assets	18,352,606.89	(3,978,517.19)
NET ASSETS		
Net assets - beginning of year	67,670,960.88	52,881,310.22
Net assets - end of year	$ 86,023,567.77	$ 48,902,793.03

The notes to the financial statements are an integral part of this statement.

CASH FLOWS FROM OPERATING ACTIVITIES

Tuition and fees	$	29,668,970.10
Grants and contracts		10,394,200.70
Sales and services of educational activities		5,340,126.96
Payments to suppliers and vendors		(26,449,302.20)
Payments to employees		(61,368,443.82)
Payments for benefits		(20,395,273.32)
Payments for scholarships and fellowships		(13,537,031.24)
Loans issued to students and employees		(711,427.18)
Collection of loans from students and employees		515,595.36
Interest earned on loans to students		26,312.57
Auxiliary enterprise charges:		
Residence halls		8,192,162.41
Bookstore		340,615.36
Food services		609,241.87
Wellness facility		913,625.86
Other auxiliaries		

Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	$	(74,346,273.39)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense		5,213,064.87
Gifts in-kind		53,337.97
Change in assets and liabilities:		
Receivables, net		(369,804.18)
Inventories		15,854.02
Prepaid/deferred items		58,242.98
Accounts payable		(1,272,621.09)
Accrued liabilities		5,608,355.68
Deferred revenue		232,193.22
Deposits		(13,018.58)
Compensated absences		244,622.22
Due to grantors		(99,490.42)
Loans to students and employees		(176,470.44)
Net cash used by operating activities	$	(64,852,007.14)

Noncash transactions		
Gifts in-kind	$	53,337.97
Gifts in-kind - capital	$	150,830.90
Unrealized gains/losses on investments	$	109,156.42
Loss on disposal of capital assets	$	36,692.39
Trade-in allowance	$	30,339.88
Bad debt expense	$	82,529.23
Loan fund cancellations and write-offs	$	363,144.26

Tennessee Board of Regents
Tennessee Technological University
Notes to the Financial Statements
June 30, 2008

Capital Assets

Capital assets, which include property, plant, equipment, library holdings, and software, are reported in the statement of net assets at historical cost or at fair value at date of donation, less accumulated depreciation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's

Pools, are reported at fair value, including those with a maturity date of one year or less at the time of purchase.

At June 30, 2008, the university had the following investments and maturities.

		Investment Maturities (in Years)			
Investment Type	Fair Value	Less than 1	1 to 5	6 to 10	More than 10
U.S. agency securities	$2,170,837.93	$25,966.31	$80,511.94	$209,656.92	$1,854,702.76
Collateralized mortgage obligation	5,511.18	-	-	5,511.18	-
Totals	$2,176,349.11	$25,966.31	$80,511.94	$215,168.10	$1,854,702.76

Interest rate risk - Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of a debt investment. The university does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The university is authorized by statute to invest funds in accordance with Tennessee Board of Regents policies. Under the current policy, funds other than endowments may be invested only in obligations of the United States or its agencies backed by the full faith term debt rating, the short-term debt must be rated A1 by all rating services (minimum of two). Commercial paper of a banking institution must not be purchased.

At June 30, 2008, the university's investments were rated as follows:

Investment Type	Fair Value	Credit Quality Rating Unrated
LGIP	$29,789,019.14	$29,789,019.14
Collateralized mortgage obligation	5,511.18	5,511.18
Total	$29,794,530.32	$29,794,530.32

Investments of the university's endowment and similar funds are composed of the following:

	Carrying Value June 30, 2008
U.S. agency securities	$ 17,824.38
Collateralized mortgage obligation	5,511.18
Local Government Investment Pool	327,220.29
Total	$350,555.85

Assets of endowments are pooled on a fair value basis, with each individual fund subscribing to or disposing of units on the basis of the fair value per unit at the beginning of the calendar quarter within which the transaction takes place. Of the total units at June 30, 2008, each having a fair value of $1.179822, 185,170.09 units were owned by endowments, 7,586.18 units were owned by term endowments, and 104,369.66 units were owned by quasi-endowments.

The following tabulation summarizes changes in relationships between cost and fair values of the pooled assets:

FY 2008

	Pooled Assets			Fair
			Net Gains	Value
	Fair Value	Cost	(Losses)	Per Unit
End of year	$350,555.85	$349,695.78	$ 860.07	$ 1.179822
Beginning of year	$343,327.05	$342,282.30	1,044.75	1.195770
				$(0.015948)
Unrealized net gains (losses)			(184.68)	
Realized net gains/(losses)			-	
Total net gains (losses)			$(184.68)	

The average annual earnings per unit, exclusive of net gains, were $0.052638 for the year ended June 30, 2008.

NOTE 4. RECEIVABLES

Receivables included the following:

	June 30, 2008
Student accounts receivable	$ 507,116.87
Grants receivable	5,072,719.99
Notes receivable	119,978.45
State appropriation receivable	224,000.00
Other receivables	615,657.82
Subtotal	6,539,473.13
Less allowance for doubtful accounts	(177,290.54)
Total receivables	$6,362,182.59

NOTE 6. LONG-TERM LIABILITIES

Long-term liabilities activity for the year ended June 30, 2008, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables:					
TSSBA debt:					
Bonds	$11,316,948.71	$ -	$ 756,024.03	$ 10,560,924.68	$ 788,279.46
Commercial paper	4,538,067.29				

2013	362,325.28	382,490.56	744,815.84
2014-2018	2,092,184.32	1,647,392.10	3,739,576.42
2019-2023	2,670,860.77	1,107,144.82	3,778,005.59
2024-2028	1,663,006.09	536,295.89	2,199,301.98
2029-2032	1,283,150.89	164,455.26	

Any net appreciation spent is required to be spent for the purposes for which the endowment was established.

The university chooses to spend only a portion of the investment income (including changes in the value of investments) each year. Under the spending plan established by the university, only realized gains have been authorized for expenditure. The remaining amount, if any, is retained to be used in future years when the amount computed using the spending plan exceeds the investment income. At June 30, 2008, net appreciation of $238,620.54 is available to be spent, of which $15,247.28 is included in restricted net assets expendable for scholarships and fellowships, $13,199.03 is included in restricted net assets expendable for instructional departmental uses, $71,600.88 is included in restricted net assets expendable for loans, $15,548.40 is included in restricted net assets expendable for other, and $123,024.95 is included in unrestricted net assets.

NOTE 8. UNRESTRICTED NET ASSETS

Unrestricted net assets include funds that have been designated for specific purposes. The unrestricted net assets are composed of the following:

	June 30, 2008
Working capital	$ 508,958.09
Encumbrances	134,674.33
Designated fees	1,348,376.90
Auxiliaries	563,562.42
Quasi-endowment	123,024.95
Plant construction	3,554,994.68
Renewal and replacement of equipment	10,810,603.25
Debt retirement	423,195.65
Undesignated	1,368,693.98
Total	$18,836,084.25

provisions of the Fair Labor Standards Act and who waive membership in the TCRS. Benefits depend solely on amounts contributed to the plan plus investment earnings. Plan provisions are established by state statute in Title 8, Chapter 35, Part 4, *Tennessee Code Annotated.* State statutes are amended by the Tennessee General Assembly.

Funding Policy - Plan members are noncontributory. The university contributes an amount equal to 10% of the employee's base salary up to the social security wage base and 11% above the social security wage base. Contribution requirements are established and amended by state statute. The contribution made by the university to the plans was $3,131,638.37 for the year ended June 30, 2008, and $3,037,096.34 for the year ended June 30, 2007. Contributions met the requirements for each year.

NOTE 10. OTHER POST-EMPLOYMENT BENEFITS

Healthcare is the only "other postemployment benefit" (OPEB) provided to employees. The State of Tennessee administers a group health insurance program which provides post-employment health insurance benefits to eligible university retirees. This program includes two plans available to higher education employees – the State Employee Group Plan and the Medicare Supplement Plan. Both plans are agent multiple-employer defined benefit OPEB plans. Benefits are established and amended by an insurance committee created by Title 8, Chapter 27, Part 101, *Tennessee Code Annotated*. Prior to reaching age 65, all members have the option of choosing a preferred provider organization (PPO), point of service (POS), or health maintenance organization (HMO) plan for healthcare benefits. Subsequent to age 65, members who are also in the state's retirement system may participate in a state-administered Medicare supplement that does not include pharmacy. The state makes on-behalf payments to the Medicare supplement plan for the university's eligible retirees; see Note 17. The plans are reported in the *Tennessee Comprehensive Annual Financial Report*. That report is available on the state's website at http://tennessee.gov/finance/act/cafr.html.

Funding Policy. The premium requirements of plan members are established and may be amended by the insurance committee. The plans are self-insured and financed on a pay-as-you-go basis with the risk shared equally among the participants. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. In accordance with TCA 8-27-205 (b), retirees not eligible for Medicare pay a percentage of the total state premium under the State Employee Group Plan based on years of service, leaving a portion of retiree premiums effectively subsidized by contributions to the State Employee Group Plan for active employees. Retirees with 30 years of service pay 20% of the total premium under the State Employee Group Plan. Retirees with 20 but less than 30 years of service pay 30% of the total premium under the State Employee Group Plan. Retirees 55 and older with less than 20 but more than 10 years of service pay 40% of the total premium under the State Employee Group Plan. Contributions for the State Employee Group Plan for the year ended June 30, 2008, were $11,355,838.13, which consisted of $9,231,803.72 from the university and $2,124,034.41 from the employees.

Annual OPEB Cost and Net OPEB Obligation

	State Employee Group Plan
Annual Required Contribution (ARC)	$2,603,000.00
Interest on the Net OPEB Obligation	-
Adjustm.16 .ef OPEB Ob 8.00(6rsyees.t1 -)]TJ(-)]0.0007 Tc1.07 Tc1.004 6c1.TJ .ef OPEB Ob	

Funded Status and Funding Progress. The funded status of the plan as of June 30, 2008, was as follows:

State Employee
Group Plan

NOTE 11. INSURANCE-RELATED ACTIVITIES

It is the policy of the state not to purchase commercial insurance for the risks of losses for general liability, automobile liability, professional malpractice, and workers' compensation. The state's management believes it is more economical to manage these risks internally and set aside assets for claim settlement in its internal service fund, the Risk Management Fund. The state purchases commercial insurance for real property, flood, earthquake, and builder's risk losses and surety bond coverage on the state's officials and employees. The amount of settlements have not exceeded insurance coverage for each of the three past fiscal years. The Risk Management Fund is also responsible for claims for damages to state-owned property up to the amount of the property insurance aggregate deductible amount. The insurance policy deductibles vary from $25,000 per occurrence, depending on the type of coverage, to an aggregate of $5 million.

The state has also set aside assets in the Employee Group Insurance Fund, an internal service fund, to provide a program of health insurance coverage for the employees of the state with the risk retained by the state. The university participates in the Employee Group Insurance Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the university based on estimates of the ultimate cost of claims that have been reported but not settled and of claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims.

NOTE 12. COMMITMENTS AND CONTINGENCIES

Sick Leave - The university records the cost of sick leave when paid. Generally, since sick leave (earned one day per month with unlimited accumulation) is paid only when an employee dies or is absent because of illness, injury, or related family death, there is no liability for sick leave at June 30. The dollar amount of unused sick leave was $25,622,563.37 at June 30, 2008.

Operating Leases - The university has entered into various operating leases for equipment. Such leases will probably continue to be required. Expenses under operating leases for personal property were $279,700.63 for the year ended June 30, 2008. All operating leases are cancelable at the lessee's option.

Construction in Progress - At June 30, 2008, outstanding commitments under construction contracts totaled $4,729,000.00 for the Nursing and Health Services building, new residence halls, STEM building, fire alarm/electrical upgrades, ADA modifications, and central cooling system upgrades, of which $1,629,300.00 will be funded by future state capital outlay appropriations.

Litigation - The university is involved in several lawsuits, none of which are expected to have a material effect on the accompanying financial statements.

NOTE 13. CHAIRS OF EXCELLENCE

The university had $5,266,539.77 on deposit at June 30, 2008, with the State Treasurer for the university's Chairs of Excellence program. These funds are held in trust by the state and are not included in the financial statements.

NOTE 14. FUNDS HELD IN TRUST BY OTHERS

The university is a beneficiary under the CTC Charitable Lead Trust, Odom Family Trust, Odom 2nd Chance Trust, and the William Jenkins Estate Account. The underlying assets are not considered assets of the university and are not included in the university's financial statements. The university received $119,088.50 from these funds during the year ended June 30, 2008.

N

Employers for Postemployment Benefits Other Than Pensions. This statement establishes standards for the measurement, recognition, and display of OPEB expense and related liabilities, note disclosures, and required supplementary information. The statement was implemented prospectively with a zero net OPEB obligation at transition.

NOTE 17. ON-BEHALF PAYMENTS

During the year ended June 30, 2008, the State of Tennessee made payments of $113,218.31 on behalf of the university for retirees participating in the Medicare Supplement Plan. The Medicare Supplement Plan is a postemployment benefit healthcare plan and is discussed further in Note 10. The plan is reported in the *Tennessee Comprehensive Annual Financial Report*. That report is available on the state's website at http://tennessee.gov/finance/act/cafr.html.

NOTE 18. COMPONENT UNIT

The Tennessee Technological University Foundation is a legally separate, tax-exempt organization supporting Tennessee Technological University. The foundation acts primarily as a fund-raising organization to supplement the resources that are available to the university in support of its programs. The 26-member board of the foundation is self-perpetuating and consists of graduates and friends of the university. Although the university does not control the timing or amount of receipts from the foundation, the majority of resources, or income thereon, that the foundation holds and invests are restricted to the activities of the university by the donors. Because these restricted resources held by the foundation can only be used by, or for the benefit of, the university, the foundation is considered a component unit of the university and is

Cash and cash equivalents - In addition to demand deposits and petty cash on hand, this classification includes instruments which are readily convertible to known amounts of cash and which have original maturities of three months or less. At June 30, 2008, cash and cash equivalents consisted of $6,698,172.69 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer and $7,751,115.25 in custodial accounts of the investment managers of the foundation.

Deposits - The foundation also has deposits in the Local Government Investment Pool (LGIP) administered by the State Treasurer. The LGIP is part of the Pooled Investment Fund. The fund's required risks disclosures are presented in the *Tennessee Comprehensive Annual Financial Report.* That report may be obtained by writing to the Tennessee Department of Finance and Administration, Division of Accounts, 14th Floor William R. Snodgrass Tennessee Tower, 312 Rosa L. Parks Avenue, Nashville, Tennessee 37243-1102, or by calling (615) 741-2140.

Investments - The foundation is authorized to invest funds in accordance with its board of directors' policies. All investments permitted to be reported at fair value under GASB Statement 31 are reported at fair value, including those with a maturity date of one year or less at the time of purchase.

At June 30, 2008, the foundation had the following investments and maturities.

		Investment Maturities (in Years)				
Investment Type	Fair Value	Less than 1	1 to 5	6 to 10	More than 10	No Maturity Date
U.S. Treasury	$ 14,100.00	$ -	$ -	$ -	$ 14,100.00	$ -
U.S. agencies	2,185,740.73	510,958.80	932,637.28	310,927.63	431,217.02	-
Corporate stocks	20,324,015.90	-	-	-	-	20,324,015.90
Corporate bonds	6,887,703.83	-	3,496,806.30	3,368,900.78	21,996.75	-
Mutual bond funds	11,002.51	-	-	-	-	11,002.51
Other:						
Hedge fund	5,243,851.41	-	-	-	-	5,243,851.41
Total	$34,666,414.38	$510,958.80	$4,429,443.58	$3,679,828.41	$467,313.77	$25,578,869.82

Interest rate risk - Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of a debt investment. The foundation does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Securities are rated using Standard and Poor's, Moody's, and/or Fitch and are presented below using the Standard and Poor's rating scale. The foundation has no investment policy limiting its investment choices based on ratings issued by nationally recognized statistical rating organizations.

At June 30, 2008, the foundation's investments were rated as follows:

		Credit Quality Rating				
Investment Type	Fair Value	AAA	AA	A	BBB	Unrated
LGIP	$ 6,698,172.69	$ -	$ -	$ -	$ -	$ 6,698,172.69
U.S. agencies	1,736,623.10	1,736,623.10	-	-	-	-
Corporate bonds	6,887,703.83	-	2,284,716.58	2,671,452.04	226,802.71	1,704,732.50
Mutual bond funds	11,002.51	-	-	-	-	11,002.51
Total	$15,333,502.13	$1,736,623.10	$2,284,716.58	$2,671,452.04	$226,802.71	$8,413,907.70

Foreign currency risk - The foundation places no limit on the amount it may invest in foreign currency.

Investments of the foundation's endowment and similar funds are composed of the following:

Carrying Value

Debt service requirements to maturity for the note payable at June 30, 2008, are as follows:

Year Ending June 30	Principal
2009	$ 34,259.25
2010	82,222.20
2011	82,222.20
2012	82,222.20
2013	82,222.20
2014-2018	376,851.95
Total	$740,000.00

Endowments - If a donor has not provided specific instructions to the foundation, the foundation's policies and procedures permit it to authorize for expenditure the net appreciation (realized and unrealized) of the investments of endowment funds. When administering its power to spend net appreciation, the foundation is required to consider the foundation's long-term and short-term needs, present and anticipated financial requirements, expected total return on its investments, price-level trends, and general economic conditions. Any net appreciation spent is required to be spent for the purposes for which the endowment was established.

The foundation chooses to spend only a portion of the investment income (including changes in the value of investments) each year. Under the spending plan established by the foundation, a percentage (as defined by the foundation) of the book value of the endowment or a percentage of the actual earnings as designated by the donor has been authorized for expenditure. The remaining amount, if any, becomes part of the permanent endowment

NOTE 19. SUBSEQUENT EVENTS

The foundation was the beneficiary of an investment account upon the death of a donor who passed away on June 2, 2008. The foundation received the proceeds from this investment account of approximately $2 million on August 22, 2008.

Tennessee Board of Regents
Tennessee Technological University
Required Supplementary Information
OPEB Schedule of Funding Progress
Unaudited

Actuarial Valuation Date	Plan	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)

TENNESSEE BOARD OF REGENTS
TENNESSEE TECHNOLOGICAL UNIVERSITY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF CASH FLOWS - COMPONENT UNIT
FOR THE YEAR ENDED JUNE 30, 2008

CASH FLOWS FROM OPERATING ACTIVITIES		
Gifts and contributions	$	1,375,516.65
Endowment income per spending plan		1,596,431.34
Sales and services of educational activities		1,018,807.34
Payments to suppliers and vendors		(1,718,321.97)
Payments for scholarships and fellowships		(1,314,781.50)
Payments to Tennessee Technological University		(3,535,437.78)
Other receipts (payments)		24,854.94
Net cash used by operating activities		(2,552,930.98)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Private gifts for endowment purposes		1,031,189.84
Net cash provided by noncapital financing activities		1,031,189.84
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from capital debt		740,000.00
Capital grants and gifts received		601,269.15
Proceeds from sale of capital assets		140,877.50
Purchases of capital assets and construction		(72,080.00)
Net cash provided by capital and related financing activities		1,410,066.65
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments		21,919,443.15
Loss on investments		(5,393.73)
Purchases of investments		(21,587,209.45)
Net cash provided by investing activities		326,839.97
Net increase in cash and cash equivalents		215,165.48
Cash and cash equivalents - beginning of year		14,234,122.46
Cash and cash equivalents - end of year	$	14,449,287.94
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	$	(2,703,760.98)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Gifts in-kind		150,830.00
Net cash used by operating activities	$	(2,552,930.98)
Noncash transactions		
Gifts in-kind	$	714,422.88
Gifts in-kind - capital	$	124,750.00
Unrealized losses on investments	$	(3,754,246.20)
Fixed assets transferred to TTU in payment to TTU	$	150,830.00